

**SURREY POLICE AND CRIME PANEL**

<p style="text-align: center;"><b>Finance Update: Medium Term Financial Plan for Surrey Police 12<sup>th</sup> June 2013</b></p>
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**SUMMARY**

In March 2013, the Commissioner approved a total gross revenue budget for Surrey Police of £207.7m for 2013-14 which included a requirement to make significant savings of £5.1m this year. As part of his statutory responsibility to ensure an efficient and effective police force, the Commissioner receives regular updates on Surrey Police's financial position and progress against savings targets at his bi-monthly management meeting. He also receives regularly updated versions of the Force's Medium Term Financial Plan (MTFP) which provides a comprehensive review of the financial position for the current year and an overview of the prospects for the following five years.

This report sets out the latest version of the Medium Term Financial Plan for Members' information, describes the assumptions upon which the Plan has been formulated and sets out details of Surrey Police's progress in delivering savings.

**RECOMMENDATIONS**

Members of the Police and Crime Panel are asked to note the report.

**EQUALITIES AND DIVERSITY IMPLICATIONS**

None arising.

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## 1. Introduction

- 1.1. This paper provides the latest projections on the financial position for Surrey Police for the period to 2018/19, and how we forecast it will be phased in each component year.
- 1.2. There are three versions of the Medium Term Financial Plan (MTFP) to reflect an optimistic, pessimistic and mostly likely financial outlook. This report focuses on the realistic most likely version of the MTFP with separate paragraphs on the pessimistic and optimistic versions.
- 1.3. The budget gap over the period to 2019/19 that results from each scenario is:
- Most Likely £17.7m
  - Pessimistic £24.9m
  - Optimistic £Nil
- 1.4. The Medium Term Financial Plan (MTFP) contains a number of key assumptions. A major one is in respect of the increase in the level of precept expected. The Police and Crime Panel endorsed the Police and Crime Commissioner's proposed precept increase for 2013/14 of 1.99%, the maximum increase permissible without recourse to referenda. It is now assumed that central government will further reduce the level at which a referenda is triggered, so the MTFP "Most Likely" and "Pessimistic" scenarios, assume that the precept will increase by no more than 1% in each of the next five years. The "Optimistic" scenario in contrast, assumes that the PCC will be able to persuade the Surrey electorate to approve a precept increase of 5.5% in 2014/15 and an increase of 4.2% in each of the four following years.
- 1.5. The "Most Likely" and "Optimistic" scenarios assume that the Police Main grant funding will reduce by 2.8% in 2014/15 and 1.8% in each of the next four years, A further announcement regarding the next Spending Review (SR) settlement is expected in June 2013.

## 2. High Level Budget Planning

- 2.1. The Police and Crime Commissioner has confirmed the budget for Surrey Police for 2013/14. Planning work is on-going for the remaining years of the MTFP period, with a range of assumptions being made, to enable this plan to be prepared. The savings target is shown at Appendix A (the Most Likely scenario) shows a saving target over 6 years of £31.3m. To help illustrate this figure, this would equate to 663 Police Constables.
- 2.2. The plan includes financial estimates of outline savings proposals that total £6.8m savings, thereby saving 140 Police Constable Posts. These, taken with current approved savings plans of £6.8m, (140 Police Constables) leaves an unfunded gap of £17.7m (369 Police constables).
- 2.3. The Force is pursuing further savings possibilities, particularly through

collaboration, but the scale of the reductions will be painful and whilst protecting the front line is our aim, there will be a point when reducing the frontline becomes a possibility, which will have an impact on service delivery.

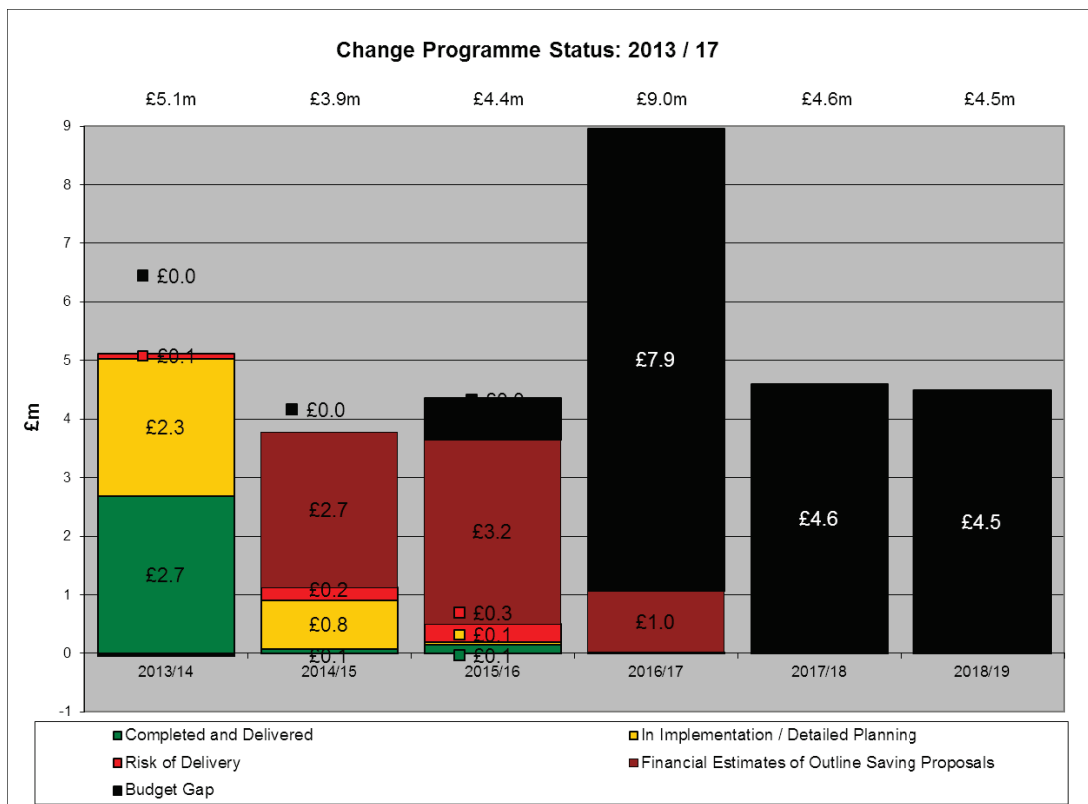
### 3. Save Programme

3.1. The Force is currently delivering a raft of different strategic change programmes which are intended to deliver the savings required to balance the budget. On-going programmes include reviews of support services, a reconfiguration of estates, reviews of resource, productivity and workforce mix and a significant programme of collaborative activity with Sussex.

3.2. Shown below is a graphical representation of the status of the change programmes for each of the years covered by the MTFP. The programmes are divided into the following categories with the budget gap shown in black:

- Completed and delivered
- In implementation or detailed planning phase
- Risk of slippage or achievement of the savings.
- Early financial estimates of outline saving proposals

12



### 4. Assumptions in the MTFP

4.1. The financial plan is based on a range of assumptions. Some of the key assumptions are detailed below:

4.2. The Local Government Finance Settlement: The funding level for

2013/14 has been confirmed at the level given in the Spending Review (SR) in October 2010. Revised government funding of 1.8% reduction per year has been assumed for the next SR, expected to commence in 2015/16. Reductions of this scale equate to real terms cuts of 15% over four years.

- 4.3. Inflation: Staff pay is assumed to be rising by 1% for 2013/14 and 2014/15, then increasing to 2% from 2015/16 and beyond. Police Officer pay is assumed to be increasing by 1% for the next two year period and then an increase of 2% from September 2015. Non pay inflation is included in accordance with the Bank of England Market Median rates published in February 2013 for all quarters through 2016. This is an area of risk if the police pay arbitration awards a pay increase above the assumptions and/or for police staff the restriction on pay leads to a retention issue. A 1% increase in all pay (police & staff) would require £1.7m of additional funding.
- 4.4. Localisation of Council tax Support: Due to new government legislation around council tax support which has been passed to Borough Councils with a 10% cut in funding, our tax base has been cut by 30,000 band D properties in 2013/14, reducing our precept receipt by £6.4m. This has been compensated by a £6.7m government grant which has been assumed to remain throughout the MTFP in the “Most Likely” and “Optimistic” scenarios.
- 4.5. The Hutton Report: The government is considering this report into the fundamental structural review of public service pension reform. The impact for the Force is currently being considered and analysed. The current MTFP assumes no impact as the emphasis is on employees taking a fairer share of the additional cost due to increasing life expectancy. The police officer pension scheme is likely to result in lower employer contributions but it is unclear how the Home Office will deal with this as funding is based on the current employer’s contribution rate.
- 4.6. The Winsor report: The impact of part one of the Winsor review of police pay and conditions has been included into the MTFP within the savings programme. This includes requirements to reduce overtime levels and changes to levels of and eligibility for allowances. The part two Winsor recommendations are being ratified and will not be included until the impact of all the changes has been assessed. The starting salary for probationers and change in constable pay scales achieve savings in early years followed by additional cost latterly.
- 4.7. Precept Compensation Grant 1: As the former Police Authority froze the police precept in 2011/12, a grant of £2.5m is due for four years, ending 2014/15. The MTFP “Most Likely” and “Optimistic” scenarios assume that in 2015/16 (the first year after the anticipated end of the current SR period) this precept compensation grant will be incorporated into the main police grant. The “Pessimistic” scenario does not make this assumption.

- 4.8. Community Safety fund: £659k allocated to the Surrey PCC for 2013/14 for the support of crime reduction and community related initiatives, some of which could be bid for from within the force.
- 4.9. National Insurance Rates: Officers and staff in the Police and Local Authority Pension schemes are currently opted out of higher National Insurance contribution levels. In March 2013, the Chancellor announced an acceleration of his plan to implement a single tier state pension from April 2016. The result of this increase in employers National Insurance contributions (from the current 10.4% contracted out rate to the 13.8% contracted in rate), based on current employment levels, is an additional cost to the force of £4.375 million per year. This has been incorporated into all MTFP scenarios. Nationally the pension changes will cost the police service £250m and is effectively a further cut imposed on the service.

## 5. Risks

- 5.1. The scale of change required to meet the funding shortfall is significant and could increase if some key plans are delayed or savings diminish, or the next spending review requires further contraction of Force's funding. This would have an impact on the Force's ability to maintain performance and the level of service delivery to the Surrey residents.
- 5.2. Aside from the assumptions already built into the MTFP, the Force and PCC must be aware of other factors that could affect the Plan and keep these under review. Detailed below are some of the risks to our financial position in the near future and over the planning period.
- 5.3. On 19th December 2012 the Home Secretary announced a full review of the Police Funding Allocation Formula for 2015/16. As the current floors and ceilings adjustments favour Surrey, any change has the potential to adversely impact our share of Police Main Grant.
- 5.4. The Secretary of State for the Department of Communities and Local Government has indicated that greater pressure will be applied to precepting authorities to freeze Council Tax in future. Surrey has resisted a freeze in the last two settlement rounds but may be obliged to accept one in future or otherwise trigger a referendum. As Surrey is more dependent on local funding than any other Force, it could face a higher percentage funding impact if precept is frozen.
- 5.5. The police staff pension is a local government scheme administered by Surrey County Council and as an employer; Surrey Police provides 12% of base salary and an additional £1.26m per year in line with the March 2010 actuarial valuation. The next actuarial valuation is in April 2014 when the required contribution level may increase creating a further cost pressure.
- 5.6. The introduction of pension auto enrolment in 2017 may further impact on employer pension fund payments from 2017/18.

## SURREY POLICE MEDIUM TERM FINANCIAL PLAN – MOST LIKELY

COST BASE	SR one		Subsequent SR			
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Base budget	208.8	207.7	206.8	206.2	205.7	205.2
Inflation	2.0	2.6	3.7	4.1	4.1	4.1
Commitments (including MRP)	0.7	0.3	0.1	4.4	-	-
Improvements	1.3	-	-	-	-	-
Strategic Change Programmes:						
Closed Projects	(0.9)	(0.2)	(0.2)	(0.0)	0.0	0.0
Police Collaboration	(1.3)	(0.1)	(0.0)	0.0	0.0	0.0
Digital Justice	(1.0)	0.0	0.0	0.0	0.0	0.0
Continuous Improvement	(1.9)	(1.0)	(0.3)	0.0	0.0	0.0
Total of Strategic Change Programme Savings:	(5.1)	(1.2)	(0.5)	(0.0)	0.0	0.0
Financial Estimates of Outline Saving Proposals	0.0	(2.7)	(3.2)	(1.0)	0.0	0.0
(Gap)/Surplus	0.0	0.0	(0.7)	(7.9)	(4.6)	(4.5)
<b>Sub total</b>	<b>(1.0)</b>	<b>(1.0)</b>	<b>(0.6)</b>	<b>(0.5)</b>	<b>(0.5)</b>	<b>(0.4)</b>
<b>Total gross budget</b>	<b>207.7</b>	<b>206.8</b>	<b>206.2</b>	<b>205.7</b>	<b>205.2</b>	<b>204.8</b>
<b>Cost increase % base</b>	<b>-0.5%</b>	<b>-0.5%</b>	<b>-0.3%</b>	<b>-0.2%</b>	<b>-0.2%</b>	<b>-0.2%</b>
<b>FUNDING</b>						
Government Grant	103.5	100.6	98.8	97.0	95.3	93.5
Community Safety Fund	0.7	0.7	0.7	0.7	0.7	0.7
Reserves	(1.5)	-	-	-	(0.1)	-
Surplus/(deficit) on Council Tax Collection Fund	0.9					
Council Tax Support Funding	6.7	6.7	6.7	6.7	6.7	6.7
Base precept	101.8	97.4	98.7	100.0	101.3	102.6
Precept increase	(4.4)	1.3	1.2	1.3	1.3	1.3
<b>Total gross budget</b>	<b>207.7</b>	<b>206.8</b>	<b>206.2</b>	<b>205.7</b>	<b>205.2</b>	<b>204.8</b>
Band D £	207.51	209.68	211.69	213.88	215.98	218.06
Band D Net precept increase %	2.0%	1.0%	1.0%	1.0%	1.0%	1.0%

## SURREY POLICE MEDIUM TERM FINANCIAL PLAN – PESSIMISTIC

COST BASE	SR one		Subsequent SR			
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Base budget	208.8	207.7	206.8	202.4	200.6	198.8
Inflation	2.0	2.6	3.7	4.0	4.0	4.0
Commitments (including MRP)	0.7	0.3	0.1	4.4	-	-
Improvements	1.3	-	-	-	-	-
Strategic Change Programmes:						
Closed Projects	(0.9)	(0.2)	(0.2)	(0.0)	0.0	0.0
Police Collaboration	(1.3)	(0.1)	(0.0)	0.0	0.0	0.0
Digital Justice	(1.0)	0.0	0.0	0.0	0.0	0.0
Continuous Improvement	(1.9)	(1.0)	(0.3)	0.0	0.0	0.0
Total of Strategic Change Programme Savings:	(5.1)	(1.2)	(0.5)	(0.0)	0.0	0.0
Financial Estimates of Outline Saving Proposals	0.0	(2.7)	(3.2)	(1.0)	0.0	0.0
(Gap)/Surplus	0.0	0.0	(4.5)	(9.1)	(5.8)	(5.5)
<b>Sub total</b>	<b>(1.0)</b>	<b>(1.0)</b>	<b>(4.4)</b>	<b>(1.8)</b>	<b>(1.8)</b>	<b>(1.5)</b>
<b>Total gross budget</b>	<b>207.7</b>	<b>206.8</b>	<b>202.4</b>	<b>200.6</b>	<b>198.8</b>	<b>197.3</b>
<b>Cost increase % base</b>	<b>-0.5%</b>	<b>-0.5%</b>	<b>-2.1%</b>	<b>-0.9%</b>	<b>-0.9%</b>	<b>-0.8%</b>
<b>FUNDING</b>						
Government Grant	103.5	100.6	101.7	98.6	95.6	92.7
Community Safety Fund	0.7	0.7	0.7	0.7	0.7	0.7
Reserves	(1.5)	-	-	-	(0.1)	-
Surplus/(deficit) on Council Tax Collection Fund	0.9					
Council Tax Support Funding	6.7	6.7	-	-	-	-
Base precept	101.8	97.4	98.7	100.0	101.3	102.6
Precept increase	(4.4)	1.3	1.3	1.3	1.3	1.3
<b>Total gross budget</b>	<b>207.7</b>	<b>206.8</b>	<b>202.4</b>	<b>200.6</b>	<b>198.8</b>	<b>197.3</b>
Band D £	207.51	209.68	211.77	213.96	216.06	218.14
Band D Net precept increase %	2.0%	1.0%	1.0%	1.0%	1.0%	1.0%

## SURREY POLICE MEDIUM TERM FINANCIAL PLAN - OPTIMISTIC

COST BASE	SR one		Subsequent SR			
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Base budget	208.8	207.7	210.4	213.3	217.9	220.3
Inflation	2.0	2.6	3.8	4.2	4.3	4.4
Commitments (including MRP)	0.7	0.3	0.1	4.4	-	-
Improvements	1.3	-	-	-	-	-
Cost of Council Tax Referendum	-	1.5	-	-	-	-
Strategic Change Programmes:						
Closed Projects	(0.9)	(0.2)	(0.2)	(0.0)		
Police Collaboration	(1.3)	(0.1)	(0.0)	0.0		
Digital Justice	(1.0)	0.0	0.0	0.0		
Continuous Improvement	(1.9)	(1.0)	(0.3)	0.0		
Total of Strategic Change Programme Savings:	(5.1)	(1.2)	(0.5)	(0.0)	0.0	0.0
Financial Estimates of Outline Saving Proposals	0.0	(0.5)	(0.5)	(3.9)	(1.9)	0.0
(Gap)/Surplus	0.0	0.0	0.0	0.0	0.0	0.0
<b>Sub total</b>	<b>(1.0)</b>	<b>2.7</b>	<b>2.9</b>	<b>4.6</b>	<b>2.4</b>	<b>4.4</b>
<b>Total gross budget</b>	<b>207.7</b>	<b>210.4</b>	<b>213.3</b>	<b>217.9</b>	<b>220.3</b>	<b>224.7</b>
<b>Cost increase % base</b>	<b>-0.5%</b>	<b>1.3%</b>	<b>1.4%</b>	<b>2.2%</b>	<b>1.1%</b>	<b>2.0%</b>
<b>FUNDING</b>						
Government Grant	103.5	100.6	98.8	97.0	95.3	93.5
Community Safety Fund	0.7	0.7	0.7	0.7	0.7	0.7
Reserves	(1.5)	(0.7)	(0.7)	0.9	(0.1)	0.8
Surplus/(deficit) on Council Tax Collection Fund	0.9					
Council Tax Support Funding	6.7	6.7	6.7	6.7	6.7	6.7
Base precept	101.8	97.4	103.1	107.8	112.6	117.7
Precept increase	(4.4)	5.7	4.7	4.8	5.1	5.3
<b>Total gross budget</b>	<b>207.7</b>	<b>210.4</b>	<b>213.3</b>	<b>217.9</b>	<b>220.3</b>	<b>224.7</b>
<b>Band D £</b>	<b>207.51</b>	<b>218.92</b>	<b>228.21</b>	<b>237.74</b>	<b>247.76</b>	<b>258.14</b>
<b>Band D Net precept increase %</b>	<b>2.0%</b>	<b>5.5%</b>	<b>4.2%</b>	<b>4.2%</b>	<b>4.2%</b>	<b>4.2%</b>